

**Controls Over Criminal Investigation
Investigative Imprest Funds Should Be
Strengthened**

January 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

January 31, 2001

MEMORANDUM FOR CHIEF, CRIMINAL INVESTIGATION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Controls Over Criminal Investigation
Investigative Imprest Funds Should Be Strengthened

This report presents the results of our review of the controls over Criminal Investigation investigative imprest funds. In summary, we found the Criminal Investigation function's controls were generally sufficient to ensure that investigative imprest funds are accurately accounted for and adequately safeguarded, and that related fund transactions are authorized, approved and accurately recorded. However, unannounced, independent account verifications were not consistently performed; investigative imprest funds were not maintained at the lowest dollar amount necessary to meet actual needs; and, monthly accountability reports were not timely prepared.

As a result of this review, we recommend that the Chief, Criminal Investigation, should ensure that the required quarterly imprest fund verifications are performed consistently and in accordance with IRS requirements. Additionally, the Chief, Criminal Investigation, should establish procedures requiring that authorized dollar amounts in the imprest funds be periodically monitored to determine actual needs and that oversight reviews be conducted to ensure the timely submission of accountability reports.

Management agreed with these recommendations. The IRS has begun work on a system to ensure that unannounced independent account verifications are consistently performed, investigative imprest fund levels are maintained at appropriate levels based on needs, and monthly accountability reports are prepared on time.

Copies of this report are being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 or Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500, if you have questions.

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Executive Summary

The Internal Revenue Service (IRS) Criminal Investigation function (referred to as CI) has 35 investigative imprest funds,¹ located throughout the country, under the control of individual Special Agents in Charge (SAC).² The authorized balances of the imprest funds range from \$10,000 to \$300,000, with an average balance of \$86,000. The investigative imprest funds are established to provide funding for undercover operations and other confidential expenditures. Confidential expenditures allow special agents to purchase or acquire information and services that are necessary to complete an investigative case. Reimbursements of confidential expenditures are claimed only through imprest funds for investigative purposes.

The IRS Chief Financial Officer requested that the Treasury Inspector General for Tax Administration perform an audit of CI investigative imprest funds because of concerns expressed by the General Accounting Office during its audit of the IRS' Fiscal Year 1999 financial statements. The overall objective of this audit was to determine whether the IRS CI function's controls are sufficient to ensure that investigative imprest funds are accurately accounted for and adequately safeguarded; related fund transactions are authorized, approved, and accurately recorded; and, the imprest funds are maintained at the lowest dollar amount necessary to meet actual needs. The audit scope covered four funds located in various offices throughout the country and concentrated only on the financial aspects of investigative imprest fund transactions. We did not review investigative case files except to retrieve or confirm records relating to the financial transactions. Therefore, we are not attesting to the overall veracity of individual expenses within the imprest funds.

Results

In general, the selected CI investigative imprest funds were accurately accounted for and adequately safeguarded, and related fund transactions were authorized, approved, and accurately recorded. While CI's internal controls were designed to prevent loss or unauthorized use of the moneys in the investigative imprest funds, some improvements can be made. In particular, unannounced, independent quarterly account verifications should be consistently performed; fund balances should be maintained at the lowest

¹ An imprest fund is a fixed cash or petty cash fund in the form of currency, coin, or negotiable instruments charged against a government appropriation account and advanced to a duly authorized cashier.

² On July 2, 2000, CI reorganized and, as a result, the SACs replaced the Chiefs, CI, in all field locations.

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dollar amount necessary to meet actual needs; and, monthly accountability reports should be timely prepared.

Unannounced, Independent Account Verifications Should Be Consistently Performed

The four imprest fund records reviewed did not contain evidence that adequate, unannounced, periodic verifications were performed in accordance with IRS procedures. For example, the verifications for one of the funds were consistently conducted in the quarter following the quarter being verified and were documented as being prepared by only one verifier instead of the required two. Another fund was not reviewed at irregular intervals; 3 of the 4 verifications for the period were performed in the last 2 weeks of the quarter. Of the remaining two funds, one was verified and reconciled only twice during the audit period and the remaining fund was verified only once during the audit period. Without unannounced periodic reviews of the imprest fund, the potential exists for improprieties and errors to occur and go undetected.

Investigative Imprest Fund Authorizations Should Be Maintained at a Level That Meets Actual Needs

The authorized dollar amounts for the four funds reviewed exceeded actual needs. Ideally, the imprest fund should turn over³ once every 2 months. However, all of the funds we reviewed were turning over beyond the 2-month period. The combined authorized fund level for the 4 imprest funds we reviewed was \$960,000, and the average 2-month turnover rate for the 4 funds combined was \$211,349, leaving an excess of \$748,651.

The imprest funds were maintained in non-interest bearing checking accounts. As a result, the government was losing potential interest of approximately \$49,000 per year⁴ on the combined average excess fund balance of \$748,651.

Monthly Accountability Reports Should Be Prepared Timely

Accountability reports⁵ were not always timely prepared and submitted for the four imprest funds. Sixty-one percent (28 of 46) of the accountability reports were filed from 1 to 24 workdays after the allowable 10-workday limit. Nearly 30 percent (8 of 28) of the late reports were submitted more than 10 workdays late. If the accountability report

³ The turnover rate is the rate in which an average fund amount is disbursed over a specific period of time.

⁴ Interest lost was calculated using the September 8, 2000, Federal Funds rate of 6.56525%.

⁵ Cashier Reimbursement Voucher and/or Accountability Report (SF 1129).

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is not filed timely, reimbursements will not be received timely. In addition, the Financial Management Office cannot maintain accurate, up-to-date detailed records for each imprest fund if the accountability reports are not received timely.

Summary of Recommendations

The Chief, CI, should ensure that the required quarterly imprest fund verifications are performed consistently and in accordance with IRS requirements. Additionally, the Chief, CI, should establish procedures requiring that authorized dollar amounts in the imprest funds be periodically monitored to determine actual needs and that oversight reviews be conducted to ensure the timely submission of accountability reports.

Management's Response: CI has begun work on a system to ensure that unannounced independent account verifications are consistently performed, investigative imprest fund levels are maintained at appropriate levels based on needs, and monthly accountability reports are prepared on time. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as Appendix IX.

Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened

Objective and Scope

The overall objective of our audit was to determine whether the Internal Revenue Service (IRS) Criminal Investigation function's (referred to as CI) controls are sufficient to ensure that investigative imprest funds¹ are accurately accounted for and adequately safeguarded; related fund transactions are authorized, approved, and accurately recorded; and, the imprest funds are maintained at the lowest dollar amount necessary to meet actual needs.

We reviewed four investigative imprest funds in the South Florida, Pacific Northwest, Illinois, and Manhattan CI offices. We reviewed all imprest fund transactions and related reports for the period July 1, 1999, through July 31, 2000. The scope of our review concentrated only on the financial aspects of investigative imprest fund transactions. We did not review investigative case files except to retrieve or confirm financial records relating to the transactions. Therefore, we are not attesting to the overall veracity of the individual expenses within the imprest funds. Additionally, when verifying whether expenditures were adequately supported, we relied on a photocopy of a receipt if the original receipt was not available and an adequate explanation was provided on the photocopy.

This audit was performed between June and August 2000, in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

¹ An imprest fund is a fixed cash or petty cash fund in the form of currency, coin, or negotiable instruments charged against a government appropriation account and advanced to a duly authorized cashier.

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Background

The CI function has 35 investigative imprest funds, located throughout the country, under the control of individual Special Agents in Charge (SAC).² The authorized balances of the imprest funds range from \$10,000 to \$300,000, with an average balance of \$86,000. The IRS Chief Financial Officer (CFO) requested this audit of CI's investigative imprest funds because of concerns expressed by the General Accounting Office during its audit of the IRS' Fiscal Year (FY) 1999 financial statements.

Investigative imprest funds are established to provide funding for undercover operations and other confidential expenditures. The funds are used by special agents for authorized investigative expenditures and the disbursements are confidential.

Special agents incur both incidental and confidential expenditures when conducting an undercover operation. Incidental expenditures are minor expenses and are generally claimed on travel vouchers. Confidential expenditures allow special agents to purchase or acquire information and services that are necessary to complete an investigative case. Reimbursements of confidential expenditures are to be made through the investigative imprest funds.

Imprest fund cashiers should be employees whose duties do not require making or granting approval for investigative expenditures. The cashier's responsibilities include maintaining detailed records, ensuring funds are adequately protected and controlled, securing approved and authorized advance requests and expense vouchers, and preparing monthly reports. The cashier is also responsible for balancing the fund and preparing a Reconciliation of Imprest Fund (Form 2844)

² On July 2, 2000, CI reorganized and, as a result, the SACs replaced the Chiefs, CI, in all field locations.

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during the quarterly unannounced cash verification audits in the presence of verifying employees.

The SAC is responsible for the overall supervision of the imprest fund. This entails approving authorizations, advances, and reimbursements; ensuring that accountability reports are prepared, approved, and submitted timely; and ensuring that the fund is maintained at the lowest dollar amount necessary to meet actual needs.

Results

In general, investigative imprest funds were accurately accounted for and transactions were authorized, approved, and accurately recorded.

Our review of CI's investigative imprest funds showed that, in general, the funds were accurately accounted for and adequately safeguarded, and related fund transactions were authorized, approved, and accurately recorded. Appendices IV through VII show the reconciliations for each of the imprest funds reviewed. The imprest fund bank balances reconciled to the current authorized amounts, and outstanding advance balances were confirmed. Advances were authorized and documented, and returned advances were timely and accurately recorded. Expenses were properly supported, authorized, approved, and accurately recorded. Accountability reports and monthly checking account reports were prepared, approved, and submitted to the Fiscal Management Office. Imprest fund safeguards were generally adequate to prevent loss or unauthorized use of the moneys. The principal cashiers' designations and duties were adequately separated to ensure they are not authorized to make or approve investigative expenditures.

Although we did not identify any fund imbalances or indications of misuse of the imprest funds, we did identify several areas where controls could be strengthened to reduce the risks of loss, misuse, or undetected errors. Specifically, we determined that unannounced, independent quarterly account verifications and reconciliations were not consistently performed; the authorized dollar amounts of the imprest

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funds were not at the lowest level necessary to meet actual needs; and, monthly accountability reports were not timely prepared.

Unannounced, Independent Account Verifications Should Be Consistently Performed

The imprest fund records did not contain evidence that adequate, unannounced, periodic verifications were performed in accordance with IRS procedures.

The imprest fund records did not contain evidence that adequate, unannounced, periodic verifications were performed in accordance with IRS procedures. Specifically, the Imprest Funds Handbook³ provides that the cashier balance the fund for verification by two independent and responsible employees at irregular intervals and without prior notice. Further, the verifications may be made as often as deemed necessary, but must be conducted at least once during each calendar quarter. Care should be taken to ensure the timing of unannounced verifications does not become predictable or the element of surprise is lost. Once the verification process begins, it must be completed within a maximum of 5 workdays. The appropriate cash verification form, SF 2844, showing the actual composition of the fund, the amounts in each classification, and the total amount advanced and any differences, should be prepared and signed by the imprest fund cashier. The employees making the verification then certify the correctness of the reconciliation.

Of the four imprest funds reviewed, two contained evidence that quarterly verifications and reconciliations were performed for each quarter of the audit period. However, the verifications for one of these funds were consistently conducted in the quarter following the quarter being verified. In addition, the reviews were documented as being prepared by only one verifier instead of the required two. Another fund was not reviewed at irregular intervals. Instead, 3 of the 4 verifications were performed in the last 2 weeks of the

³ Internal Revenue Manual (IRM) 1724, section 442.

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quarter, and the cashier had to call the verifiers to remind them to perform the verification and reconciliation of the fund.

Of the remaining two funds, one was verified and reconciled only twice during the audit period and the other fund was verified only once during the audit period. The verification of the latter fund was started in the first quarter of FY 2000 but was postponed and resumed in the second quarter of FY 2000.

The FY 2000 annual managerial reviews were conducted by CI Directors of Investigation, and they identified that quarterly verifications were not being performed in two of the four locations we visited. The results of these reviews were communicated by memorandum to IRS management. IRS management has not taken appropriate steps to ensure that a function independent of CI performs unannounced verifications of the imprest funds at least once during each calendar quarter.

Without unannounced, periodic reviews of the imprest fund, the potential exists for improprieties and errors to occur and go undetected.

Without unannounced, periodic reviews of the imprest fund, the potential exists for improprieties and errors to occur and go undetected. The potential for an unannounced verification to occur at any time during the quarter acts as a deterrent for committing improprieties. If the verifications do not occur, or occur at a predictable time such as the last weeks of the quarter, the chance of detecting any improprieties is greatly reduced.

Recommendation

1. The Chief, CI, should stress the importance of conducting unannounced, independent verifications of the investigative imprest funds with responsible managers and ensure that they take appropriate actions for conducting or arranging for another division of the IRS to conduct these verifications in accordance with the Imprest Funds Handbook.

Management's Response: CI is currently in the process of structuring an agreement with another IRS operating

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division to conduct unannounced and independent verifications of the investigative imprest funds.

Investigative Imprest Fund Authorizations Should Be Maintained at a Level That Meets Actual Needs

Investigative imprest fund amounts were being maintained at levels that exceed actual needs.

Investigative imprest fund authorized dollar amounts were being maintained at levels that exceed actual needs. The Imprest Funds Handbook⁴ recommends every effort be made to minimize outstanding imprest fund balances and that the cash advance to the fund should turn over⁵ at least once every 2 months. For the protection of both the imprest fund cashier and the fund itself, the cashier should request that the level of the fund be decreased if it proves to be in excess of needs. The Imprest Funds Handbook⁶ also requires the maximum amount of each imprest fund be set at the lowest dollar amount necessary to meet actual needs. Additionally, the CI Fiscal and Personal Matters Handbook⁷ places responsibility with the SAC⁸ for ensuring the imprest fund is maintained at the lowest dollar amount necessary to meet actual needs.

We calculated the average 2-month turnover rate for each of the funds we reviewed for the period July 1, 1999, through June 30, 2000. All of the funds were turning over beyond the 2-month period. The authorized dollar amount for the 4 imprest funds totaled

⁴ IRM 1724, section 411.

⁵ The turnover rate is the rate in which an average fund amount is disbursed over a specific period of time (IRM 724 – 97, Exhibit 400-b).

⁶ IRM 1724, section 441.

⁷ IRM 9.11, section 1.4.4.4.

⁸ The IRM gives this responsibility to the Chief, CI, in each district. However, on July 2, 2000, CI reorganized and, as a result, the SACs replaced the Chiefs, CI, in all field locations.

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\$960,000. The average 2-month turnover rate for the 4 funds combined is \$211,349, leaving an excess of \$748,651. See Exhibit 1 for details.

Exhibit 1 - Fund Turnover Analysis

District	Fund Amount	Avg. Two Month Turnover	Difference
Manhattan	\$ 300,000	\$ 24,528	\$ 275,472
South Florida	\$ 280,000	\$ 94,574	\$ 185,426
Pacific Northwest	\$ 255,000	\$ 58,394	\$ 196,606
Illinois	\$ 125,000	\$ 33,853	\$ 91,147
TOTAL	\$ 960,000	\$ 211,349	\$ 748,651

Source: *Monthly Accountability Reports for each fund*

The government was losing potential interest of approximately \$49,000 per year on the \$748,651 in excess funds that were maintained in the checking accounts.

The imprest funds were maintained in non-interest bearing checking accounts.⁹ As a result, the government was losing potential interest of approximately \$49,000 per year¹⁰ on the \$748,651 in excess funds that were maintained in the checking accounts.

In each of the four locations, the cashier was responsible for monitoring the fund level and notifying the SAC when an adjustment to the fund level was needed. In three of the four locations, the SACs did not perform independent reviews of the fund levels, as recommended in the Fiscal and Personal Matters Handbook. Instead, they relied on the cashier to inform them when a change to the fund level was needed.

The purpose of investigative imprest funds is to provide funding for confidential expenditures of undercover operations, which occasionally include unexpected,

⁹ The Financial Management Service's *Cashier's Manual* provides that an imprest fund account may be interest bearing; however, any interest earned should be deposited to the Treasury's general fund. IRM 1724, section 651 provides instructions on accounting for and depositing interest.

¹⁰ Interest lost was calculated using the September 8, 2000, Federal Funds rate of 6.56525%.

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high-dollar expenditures. In determining the appropriate fund level, the circumstances surrounding the fund should also be considered. For example, special situations requiring additional cash disbursements may be a factor when timing is critical. In this regard, CI management is responsible for anticipating funding needs and ensuring that the imprest funds operate at the lowest dollar amount necessary to meet actual needs. Appendix VIII provides additional information that could be used to assist management in determining the appropriate fund level for the four funds we reviewed.

Recommendations

2. The Chief, CI, should ensure the authorized dollar amounts in the investigative imprest funds are monitored to determine actual needs and that they are adjusted accordingly.

Management's Response: Accountability reports will be generated to track monthly expenditures, outstanding advance balances, and authorization levels. Cashiers will provide accountability reports to their SACs for review on a monthly basis to ensure they maintain the imprest fund levels at appropriate amounts.

3. The Chief, CI, should work with the CFO to evaluate the feasibility of depositing imprest funds in interest bearing accounts, including balancing the interest to be earned against any increases in fees charged by financial institutions to maintain such accounts.

Management's Response: CI will study and explore the possibility of using interest bearing accounts. This study will include coordination with the CFO.

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Monthly Accountability Reports Should Be Prepared Timely

Sixty-one percent of the accountability reports were filed from 1 to 24 workdays after the required 10-workday limit.

Accountability reports¹¹ were not always timely prepared and submitted for the 4 imprest funds. We reviewed all accountability reports submitted during the period July 1, 1999, through July 31, 2000, and found that 28 of 46 (61 percent) accountability reports were filed from 1 to 24 workdays after the allowable 10-workday limit. Nearly 30 percent (8 of 28) of the late reports were submitted more than 10 workdays late.

The Imprest Funds Handbook requires that accountability reports be submitted by each cashier to the Fiscal Management Office where the fund was advanced to advise of the status of the fund and to request reimbursement of the fund. Accountability reports are to be prepared on a monthly basis as of the last day of the month. The reports are to be submitted by the tenth workday of the following month. All expense vouchers¹² substantiating the reimbursement amount should be attached to the report.

CI management did not stress the importance of timely submitting accountability reports. For example, when we discussed this issue with the cashiers and SACs, they explained that occasionally they hold the reports until they receive all of the expense vouchers for the month before submitting the accountability report and requesting reimbursement. One SAC also explained that occasionally expense vouchers would be returned for additional information and, in those instances, the cashier held the accountability report until the revised vouchers were received. Additionally, one of the cashiers was not aware of the requirement for timely filing the accountability report.

¹¹ Cashier Reimbursement Voucher and/or Accountability Report (SF 1129).

¹² Claim for Reimbursement for Expenditures on Official Business (Form 1164 or Form 10411).

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While we understand the rationale for some delays, this should not become a frequent occurrence. If the accountability report is not filed timely, reimbursements will not be received timely. When an imprest fund is operating at its lowest dollar amount necessary to meet actual needs, timely reimbursements are crucial to ensure that moneys are available for immediate disbursement whenever needs arise. In addition, the Fiscal Management Office cannot maintain accurate, up-to-date detailed records for each imprest fund if the accountability reports are not received timely.

Recommendation

4. The Chief, CI, should require that oversight reviews be conducted periodically to determine whether the reports are submitted timely. Additionally, the SACs should be directed to ensure that all cashiers are aware of the IRM requirements and understand the importance of timely submitting accountability reports.

Management's Response: CI Finance will provide imprest fund cashier training the second quarter of FY 2001. To monitor the submission of accountability reports within the prescribed time frames, the Special Investigative Techniques section will incorporate necessary review procedures into the annual review process of imprest funds.

Conclusion

In general, the selected CI investigative imprest funds were accurately accounted for and adequately safeguarded, and related fund transactions were authorized, approved, and accurately recorded. However, unannounced, independent account verifications were not consistently performed, investigative imprest funds were not maintained at the lowest dollar amount necessary to meet actual needs, and monthly accountability reports were not timely

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prepared. When implemented, the CI proposed corrective actions should improve the overall effectiveness of the control environment to lessen the risk that improprieties and errors may occur and go undetected.

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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the Internal Revenue Service Criminal Investigation function's (referred to as CI) controls are sufficient to ensure that investigative imprest funds are accurately accounted for and adequately safeguarded; related fund transactions are authorized, approved, and accurately recorded; and, the imprest funds are maintained at the lowest dollar amount necessary to meet actual needs. To accomplish this objective, we:

- I. Gained an understanding of controls established to ensure investigative imprest funds were accurately accounted for, adequately safeguarded, used only for authorized purposes, and maintained at the lowest dollar amount necessary to meet actual needs.
 - A. Researched the Internal Revenue Manual (IRM) and any other applicable guidelines or standards to identify CI's controls for establishing, maintaining, and reviewing investigative imprest funds.
 - B. Interviewed CI management (Directors and Chiefs) to determine their roles and responsibilities for the investigative imprest funds in their area.
 - C. Interviewed the investigative imprest fund cashiers (principal and alternate) individually to determine their roles and responsibilities and training provided.
- II. Determined whether each investigative imprest fund reviewed was accurately accounted for.
 - A. Determined the location, size, and activity level of all CI investigative imprest funds. Based on the location, size, and activity of the fund, judgmentally selected four funds for review.
 - B. Performed an unannounced reconciliation of the four imprest funds to determine whether all funds were adequately accounted for, including outstanding advances.
 - C. Evaluated the accuracy of the Cashier Reimbursement Voucher and/or Accountability Reports (SF 1129) prepared by the imprest fund cashier. Reviewed all reimbursement vouchers for each report.
 - D. Determined whether monthly checking account reports (Statement of Designated Depository Account (SF 1149)) were submitted to the Chief, Fiscal Management Branch.

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- E. Determined whether account verifications (Reconciliation of Imprest Fund (SF 2844)) were performed as required.
- F. Reviewed cashier designations and duties.
- III. Determined whether investigative imprest fund safeguards were adequate to prevent loss or unauthorized use of the fund. Determined whether:
 - A. All investigative imprest fund cash, checks, and other items making up the fund were retained under the exclusive control of the cashier, in containers which met security requirements, and were kept separate from other funds.
 - B. Space assigned to the cashier was being maintained to prevent unauthorized individuals from having access to the cashier area and had periodic, unannounced inspections by Regional and National Headquarters Security Officers to ensure proper safeguards.
 - C. The key and/or combination for the imprest fund container and lockable cash boxes in which imprest funds are held were under the exclusive control of the cashiers.
 - D. The alternate cashier, who maintains an informal advance from the principal cashier, had a separate lockable cash box that should be secured inside the fund container.
 - E. The combination and/or spare keys for the fund container and lockable cash boxes were maintained in signed, sealed, and dated envelopes and retained unopened in an appropriate container, except by a responsible official in the event of an emergency.
 - F. The combination of the lock on the imprest fund storage container was changed immediately upon receipt to a new lock; whenever there was a change in cashiers; whenever it had been necessary to effect access to the fund in the case of the unforeseen absence of the cashier(s); whenever the combination had been compromised in some way; or, in any event, at least once each year.
 - G. The imprest fund storage container, as well as cash lock boxes within the storage container, were locked at all times, except when cashiers were actually making transactions, and whenever cashiers were absent, even only momentarily.
 - H. The accountability for each imprest fund was vested in only one person--the individual whom the designating official had designated as cashier.

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- I. Cashiers and their alternates were not maintaining any unofficial or additional funds other than the ones they were specifically designated to administer during their official duty hours.
- J. Reimbursement vouchers were transmitted to the Fiscal Management Office by the official responsible for the office in which the imprest fund was located and not by the cashier(s).
- K. The duties of the cashier were adequately separated.
- L. Bank signature cards for checking accounts were signed by:
 - Principal Cashier.
 - Alternate Cashier.
 - Official responsible for the office in which the imprest fund was located.
 - Chief, Fiscal Management Branch; Chief, Office of Financial Operations, Systems and Accounting Standards Division; or designee.
- M. Checks were pre-numbered in sequential order from the bank or manually numbered in sequential order prior to use by the cashier.
- IV. Determined whether investigative imprest fund transactions were authorized, approved, and accurately recorded.
 - A. Prepared a schedule of all Fiscal Year (FY) 2000 advances (Request/Receipt for Advance From Investigative Imprest/Or Non-Recoverable Funds (SF 8562)) and determined whether advances were properly signed, approved, posted, extended, and returned; were not further advanced to other employees; were obtained as close to the date of anticipated expenditure as possible; and included accounting codes.
 - B. Prepared a schedule of all FY 2000 expenditures and determined whether expenditures were identified by case number, included itemized lists, were properly supported, were for confidential expenditures only, were properly prepared and approved, and included accounting codes.
- V. Determined whether each investigative imprest fund reviewed was operating at the lowest dollar amount necessary to meet actual needs.
 - A. Used Exhibit 400-6 (Determining the Fund Turnover Rate) in IRM 1724 as a guideline and calculated the lowest dollar amount necessary to meet actual needs.
 - B. Discussed with CI management their procedures for periodically reviewing the fund level and turnover rate during quarterly verifications.
 - C. Obtained documentation to verify any reviews performed.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Director, Operations Policy and Support CI:OPS
Chief Financial Officer N:CFO
Director, Legislative Affairs CL:LA
Management Controls Coordinator A
Chief Counsel CC
Director, Office of Program Evaluation and Risk Analysis (OPERA) N:ADC:R:O
National Taxpayer Advocate TA
Audit Liaison: Chief, Criminal Investigation CI

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Appendix IV

Imprest Fund Reconciliation - South Florida District

Current Authorized Amount	\$ 280,000.00
Less: Outstanding Advances	<u>\$ 124,551.00</u>
Cash in Bank as of 6/13/2000¹	<u>\$ 155,449.00</u>
Bank Balance per Last Statement	\$ 155,449.00
Add: Deposits	<u>\$ 0.00</u>
<i>Sub-total</i>	<i>\$ 155,449.00</i>
Less: Outstanding Checks	<u>\$ 0.00</u>
Total	<u>\$ 155,449.00</u>
Cash in Bank per Checkbook	<u>\$ 142,566.49</u>
<i>Difference</i>	<i>\$ 12,882.51</i>
Direct Deposit Not Added in Checkbook Yet	<u>\$ 12,882.51</u>
Difference Between Bank Balance & Checkbook	<u>\$ 0.00</u>

¹ Actual bank balance for the date the reconciliation was performed was confirmed with the bank.

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Appendix V

Imprest Fund Reconciliation - Pacific Northwest District

Current Authorized Amount	\$ 255,000.00
Less: Outstanding Advances	\$ 42,235.96
Less: Outstanding Subvouchers	<u>\$ 62.46</u>
Cash in Bank as of 7/10/00¹	<u>\$ 212,701.58</u>
Bank Balance per Last Statement	\$ 168,941.86
Add: Deposits	<u>\$ 57,695.54</u>
<i>Sub-total</i>	\$ 226,637.40
Less: Outstanding Checks	<u>\$ 13,935.82</u>
Total	<u>\$ 212,701.58</u>
Cash in Bank per Checkbook	<u>\$ 212,701.58</u>
<i>Difference</i>	\$ 0.00
Direct Deposit Not Added in Checkbook Yet	<u>\$ 0.00</u>
Difference Between Bank Balance & Checkbook	<u><u>\$ 0.00</u></u>

¹ Actual bank balance for the date the reconciliation was performed was confirmed with the bank.

**Controls Over Criminal Investigation Investigative Imprest Funds
Should Be Strengthened**

Appendix VI

Imprest Fund Reconciliation - Illinois District

Current Authorized Amount	\$ 125,000.00
Less: Outstanding Advances	\$ 31,180.46
Less: Reimbursement Vouchers in Transit	<u>\$ 17,110.20</u>
Cash in Bank as of 7/24/00¹	<u>\$ 76,709.34</u>
Bank Balance per Last Statement	\$ 73,622.90
Add: Deposits	<u>\$ 7,586.44</u>
<i>Sub-total</i>	<i>\$ 81,209.34</i>
Less: Outstanding Checks	<u>\$ 4,500.00</u>
Total	<u>\$ 76,709.34</u>
Cash in Bank per Checkbook	<u>\$ 76,709.34</u>
<i>Difference</i>	<i>\$ 0.00</i>
Direct Deposit Not Added in Checkbook Yet	<u>\$ 0.00</u>
Difference Between Bank Balance & Checkbook	<u><u>\$ 0.00</u></u>

¹ Actual bank balance for the date the reconciliation was performed was confirmed with the bank.

**Controls Over Criminal Investigation Investigative Imprest Funds
Should Be Strengthened**

Appendix VII

Imprest Fund Reconciliation - Manhattan District

Current Authorized Amount	\$ 300,000.00
Less: Outstanding Advances	\$ 60,089.30
Less: Deposits in Transit	\$ 1,189.30
Less: Unrecorded Transaction	<u>\$ 1,100.00</u>
Cash in Bank as of 7/31/00¹	<u>\$ 237,621.40</u>
Bank Balance per Last Statement	\$ 237,621.40
Add: Deposits	\$ <u>2,289.30</u>
<i>Sub-total</i>	\$ 239,910.70
Less: Outstanding Checks	<u>\$ 0.00</u>
Total	\$ 239,910.70
Cash in Bank per Checkbook	<u>\$ 224,465.85</u>
<i>Difference</i>	\$ 15,444.85
Direct Deposit Not Added in Checkbook Yet	<u>\$ 15,444.85</u>
Difference Between Bank Balance & Checkbook	<u>\$ 0.00</u>

¹ Actual bank balance for the date the reconciliation was performed was confirmed with the bank.

**Controls Over Criminal Investigation Investigative Imprest Funds
Should Be Strengthened**

Appendix VIII

Fund Level Information

Amount of Funds Replenished Each Month for the Period July 1999 - June 2000

Voucher	South Florida District	Pacific Northwest District	Illinois District	Manhattan District
07/1/99 - 07/31/99	\$ 62,087.11	\$ 32,316.46	\$ 41,878.98	\$ 10,992.74
08/1/99 - 08/31/99	\$ 34,346.31	\$ 3,941.69	\$ 19,148.12	\$ 30,557.36
09/1/99 - 09/30/99	\$132,623.73	\$ 4,996.61	\$ 10,714.93	\$ 32,909.40
10/01/99 - 10/31/99	\$ 30,224.74	\$ 1,820.92	\$ 12,415.29	\$ 5,392.52
11/01/99 - 11/30/99	\$ 47,026.69	\$ 71,915.91	\$ 19,958.98	\$ 9,088.92
12/01/99 - 12/31/99	\$ 52,268.05	\$ 5,984.01	\$ 12,585.75	\$ 1,025.54
01/01/00 - 01/31/00	\$ 21,667.97	\$ 15,521.82	\$ 10,528.60	\$ 581.59
02/01/00 - 02/29/00	\$ 30,906.78	\$ 17,689.92	\$ 19,631.99	\$ 10,170.09
03/1/00 - 03/31/00	\$ 48,833.29	\$ 10,504.84	\$ 43,681.52	\$ 1,388.02
04/01/00 - 04/30/00	\$ 12,882.51	\$ 36,417.25	\$ 15,377.62	\$ 12,214.28
05/01/00 -05/31/00	*N/A	\$ 145,791.54	\$ 7,586.44	\$ 3,230.57
06/01/00 -06/30/00	*N/A	*N/A	\$ 17,110.20	*N/A
Total funds replenished July 1999 - June 2000	\$ 472,867.18	\$ 346,900.97	\$ 230,618.42	\$ 117,551.03

Source: IRS-prepared Cashier Reimbursement Voucher and/or Accountability Reports (SF 1129) for the periods and locations shown.

*N/A: Not applicable; the reimbursement voucher was either not due or not done.

**Controls Over Criminal Investigation Investigative Imprest Funds
Should Be Strengthened**

Individual Expense Vouchers¹ over \$10,000 for the Period July 1999 - July 2000

South Florida District	Pacific Northwest District	Illinois District	Manhattan District
\$128,934.79	\$ 71,297.79	\$ 39,650.00	\$ 27,463.80
\$ 51,631.53	\$ 50,000.00	\$ 13,812.25	\$ 25,150.82
\$ 49,572.51	\$ 40,000.00	\$ 11,018.57	\$ 13,778.53
\$ 45,769.60	\$ 40,000.00	\$ 10,863.64	\$ 12,567.42
\$ 41,492.53	\$ 34,128.97		\$ 10,554.84
\$ 34,222.00	\$ 16,782.67		
\$ 33,077.32	\$ 12,984.20		
\$ 27,184.88	\$ 12,454.72		
\$ 19,860.50			
\$ 13,798.97			
\$ 13,317.44			

Source: *IRS-prepared Claim for Reimbursement for Expenditures on Official Business (SF 1164) for the locations shown.*

¹ An individual expense voucher represents specific investigative expenses which are accumulated and reported on monthly SF 1164s. As shown, no individual expense voucher submitted during the period July 1999 through July 2000 would support any of the fund levels included in our review.

Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened

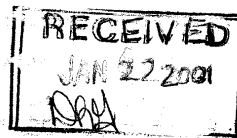
Appendix IX

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JAN 22 2001



Criminal Investigation

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:


Mark E. Matthews
Chief, Criminal Investigation

SUBJECT:

Response To Draft Audit Report--Controls
Over Criminal Investigative Imprest Funds
Should Be Strengthened (Audit #200010027)

Thank you for the opportunity to respond to your draft report entitled "Controls Over Criminal Investigative Imprest Funds Should Be Strengthened." Your draft report summarizes the financial review of four Criminal Investigation (CI) investigative imprest funds from July 1, 1999 through July 31, 2000. The use of investigative imprest funds is critical to conducting significant and complex investigations in support of CI's mission and we take your findings and recommendations very seriously. We will use the findings and recommendations to improve our procedures and oversight of our imprest funds.

As outlined in your draft report, we agree our controls are generally sufficient to ensure that imprest funds are authorized, approved, recorded, and safeguarded. However, we have begun work to implement a system to ensure that unannounced independent account verifications are consistently performed, that investigative imprest fund levels are maintained at appropriate levels based on needs, and that monthly accountability reports are prepared on time.

We will explore the best approach to address the interest income issue identified in the review. We must weigh the need for a full range of banking services against the limitations related to minimum required balances and bank charges of high yield interest bearing accounts. We may not be able to maximize investment potential while meeting our investigative needs. Moreover, maintaining lower balances that more closely match actual needs will reduce any future potential interest income loss.

We did not find any information in the draft report to warrant protection under the Freedom of Information Act.

Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened

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Our comments on the specific recommendations in this report are as follows:

IDENTITY OF RECOMMENDATION #1

The Chief, CI, should stress the importance of conducting unannounced, independent verifications of the investigative imprest funds with responsible managers and ensure that they take appropriate actions for conducting or arranging for another division of the IRS to conduct these verifications in accordance with the Imprest Funds Handbook.

ASSESSMENT OF CAUSE(S)

Due to IRS modernization efforts, we do not have updated procedures for using auditors outside of CI to review the imprest funds.

CORRECTIVE ACTIONS

Criminal Investigation is currently in the process of structuring an agreement with another IRS operating division to conduct unannounced and independent verifications of the investigative imprest funds.

IMPLEMENTATION DATE:

October 1, 2001

RESPONSIBLE OFFICIAL(S)

Chief, CI

Director, Operations Policy and Support

Director, Special Investigative Techniques Section (SIT)

CORRECTIVE ACTION(S) MONITORING PLAN

Monitor reviews that take place by a division other than CI and examine the schedule of reviews to avoid predictable scheduling patterns for upcoming reviews.

IDENTITY OF RECOMMENDATION #2

The Chief, CI, should ensure the authorized dollar amounts in the investigative imprest funds are monitored to determine actual needs and that they are adjusted accordingly.

ASSESSMENT OF CAUSE(S)

Special Agents in Charge (SAC) must lower the levels of investigative imprest funds upon completion of undercover operations. We did not have adequate oversight of the account balances.

CORRECTIVE ACTIONS

Criminal Investigation requires imprest fund cashiers to use a computer program to track imprest fund expenditures. Accountability reports will be generated from this program to track monthly expenditures, outstanding advance balances, and authorization levels. We will have cashiers provide accountability reports to their SAC for review on a monthly basis to ensure they maintain the imprest fund level at an appropriate amount. Special Agents in Charge must review and initial the reports to ensure they are monitoring their imprest fund levels. Special Investigative Techniques Section analysts will conduct annual reviews and follow up with the cashiers to ensure that the imprest funds are maintained at the appropriate level.

Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened

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IMPLEMENTATION DATE:

October 1, 2001

RESPONSIBLE OFFICIAL(S)

Chief, CI

Director, Operations Policy and Support

Director, Special Investigative Techniques Section

CORRECTIVE ACTION(S) MONITORING PLAN

Ensure that SIT analysts conduct annual reviews of the imprest funds and address the imprest fund dollar level compared to the field office's needs.

IDENTITY OF RECOMMENDATION #3

The Chief, CI, should work with the Chief Financial Officer (CFO) to evaluate the feasibility of depositing imprest funds in interest bearing accounts, including balancing the interest to be earned against any increases in fees charged by financial institutions to maintain such accounts.

ASSESSMENT OF CAUSE(S)

Criminal Investigation's current practice is to establish non-interest bearing checking accounts for imprest funds to prevent monthly service charges on the accounts.

CORRECTIVE ACTIONS

We will study and explore the possibility of using interest bearing accounts, taking into consideration the costs of these accounts due to minimum balance requirements, limitations on the number of transactions, and the availability of necessary banking services. This study will include coordination with the CFO and an assessment of state banking regulations that may preclude corporate interest bearing draft accounts. Additionally, efforts to lower dollar amounts maintained in the imprest funds as a result of Recommendation #2, will reduce the significance of this issue.

IMPLEMENTATION DATE:

January 31, 2002

RESPONSIBLE OFFICIAL(S)

Chief, CI

Director, Operations Policy and Support

Director, Strategy

Director, Finance

CORRECTIVE ACTION(S) MONITORING PLAN

Identify all established investigative imprest funds that earn interest and document the amount of interest earned compared to any bank fees. If no interest earning imprest funds are identified, review the findings of the Chief CI, the Director Operations Policy and Support, the Director of Strategy, and the Director of Finance.

IDENTITY OF RECOMMENDATION #4

The Chief, CI, should require that oversight reviews be conducted periodically to

Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened

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determine whether the reports are submitted timely. Additionally, the SACs should be directed to ensure that all cashiers are aware of the Internal Revenue Manual (IRM) requirements and understand the importance of timely submitting accountability reports.

ASSESSMENT OF CAUSE(S)

Under the previous organization structure of CI, each Region had responsibility for conducting reviews, and local follow up was inconsistent.

CORRECTIVE ACTIONS

Criminal Investigation Finance will provide imprest fund cashier training the second quarter of FY 2001. We will stress submitting and processing accountability reports within prescribed time frames to the cashiers during the training sessions. To monitor the submission of accountability reports within prescribed time frames, SIT will incorporate the following procedure to the annual review process of imprest funds. The Imprest Fund Technician at the Beckley Finance Center will provide SIT program analysts with a quarterly report, which will track the receipt of field office accountability reports at the Beckley Finance Center. This will allow SIT to determine which field offices are not claiming reimbursement of confidential expenditures within required time frames. Special Investigative Techniques analysts will follow up with the SACs to ensure appropriate action is taken when the field office is not meeting the time requirements.

IMPLEMENTATION DATE:

October 1, 2001

RESPONSIBLE OFFICIAL(S)

Chief, CI
Director, Operations Policy and Support
Director, Special Investigative Techniques Section
Director, Strategy
Director, Finance
Special Agents in Charge

CORRECTIVE ACTION(S) MONITORING PLAN

Annual reviews will address the issue of filing accountability reports within prescribed time frames. Comparison of the filing dates prior to using the quarterly reports with the filing dates after using the quarterly reports will determine the effectiveness of the procedures.

If you have any questions or need additional information, please contact me at 202-622-3200 or a member of your staff may contact Director, Special Investigative Techniques, James Michalak at 202-622-8102.

Attachment